

# **Federal Employee Retirement Contributions Tax Refunds**

State of Arizona  
Department of Revenue  
February 2001  
Pub 706

## Refunds of Arizona Income Tax Paid On Federal Employee Retirement Contributions

*The Arizona Department of Revenue will be issuing refunds to approximately 40,000 current and former federal employees.*

### Are You Due A Refund?

If all of the following apply, you may be entitled to a refund of the Arizona income tax you paid on your federal retirement contributions for years 1990 and prior.

- ◆ You filed Arizona income tax returns for years 1990 and prior.
- ◆ You were employed by the federal government, other than the military, for years 1990 and prior.
- ◆ You made contributions to a federal retirement plan.
- ◆ You paid Arizona income tax on those contributions.
- ◆ You filed a *timely* protective claim with the Arizona Department of Revenue claiming a refund of the Arizona income tax paid on those contributions.

*See the section in this brochure on “Protective Claims” to understand what makes a claim timely.*

(A claim form for years 1990 and prior was provided in the 1990 Arizona income tax return booklet. The 1990 tax year was also covered by the claim form in the 1994 Arizona income tax booklet. )

### Why Is Arizona Issuing These Refunds?

For tax years 1990 and prior, the State of Arizona allowed its employees to deduct contributions to their state retirement plans, but federal employees were not allowed by the State of Arizona to deduct contributions to their federal retirement plans. In 1989, several federal employees filed a lawsuit against the Arizona Department of Revenue. They contended that this was discriminatory against federal civil service employees.

On March 25, 1997, the State Board of Tax Appeals decided in favor of the federal employees. The governor then instructed the Arizona Department of Revenue to implement a program to refund the taxes paid by federal employees on their retirement contributions for years 1990 and prior, provided that timely protective claims were filed with Arizona by these federal employees for the tax years involved.

### Protective Claims

After the suit was filed, the Arizona Department of Revenue published “protective claim” forms for people who might have been entitled to a refund if the suit was won by the federal employees. The department instructed taxpayers to file these forms to claim refunds of state taxes paid on federal retirement contributions for years 1990 and prior.

Arizona imposes a *statute of limitations* of four years for the claiming of any

refund of taxes paid. This statute of limitations was not affected by the decision to refund the taxes paid on federal retirement contributions. Therefore, for a protective claim to be considered timely, it must have been filed with the Department of Revenue *within four years of the due date of the return on which the taxes were paid, or within four years from the date on which the return was actually filed, whichever period was later.*

For instance, suppose you were an Arizona resident and a federal employee from 1986 through 1988. You contributed to a federal retirement plan and paid Arizona taxes on these contributions. You filed a claim with the Department of Revenue for a refund of these taxes for 1986 through 1988. You had filed your original 1986 Arizona income tax return before the deadline of April 15, 1987. Your protective claim for the refund of state income taxes paid on federal retirement contributions must have been filed by April 15, 1991, if refunds for all *three* years are to be granted. But if you filed your claim late, on, for example, May 17, 1991, you would have been late for the 1986 claim, and only refunds of taxes for 1987 and 1988 would be considered.

If a protective claim was not filed within four years from the due date of the return or four years from the date the return was filed, whichever was later, then the protective claim was not timely and is invalid. *Claims must have been timely filed for refunds to be issued.*

### **How and When Will The Refunds Be Issued?**

Please remember that there are over 40,000 claims that the Department must review, so please be patient.

The first step in the issuance of a refund is the verification that your claim is valid. This process can demand extensive research.

After research is completed, the Department will determine the amount of the tax that should be refunded, including the interest that has accrued on this amount. We will then send notices informing you of your total refund amount. The actual refund check should be mailed within a few weeks after the notices. If you disagree with the refund amount, or if the Department denies your claim, you will have 90 days from the notice date to file an appeal. You may request an informal conference with a representative of the Department. You also have the right to ask for a formal hearing on your appeal.

### **Other Questions**

#### **Why would my claim be denied?**

There are three likely reasons you may receive a denial letter. First, you were not a Federal Civil Servant for the years covered by your claim. Second, you did not file an Arizona income tax return for the years covered by your claim. Finally, your refund claim was not filed timely.

#### **Will the refunds include interest?**

Each federal employee will receive a refund of Arizona income tax paid, plus interest, on their federal retirement contributions for each year protected by a

timely filed claim. Interest continues to accrue at the statutory rate until the refund is issued. The interest begins with either the original due date of the return or the date the tax was paid, whichever is later, for each tax year.

### **What about members of the armed forces?**

Military personnel did not have retirement contributions that were subject to tax by Arizona. Therefore, military personnel who filed claims are not part of the refund group.

### **What if I am divorced?**

The Department will make every attempt to determine if a community property split is required for the years involved. If a community property split is required, each former spouse will be issued an individual notice.

### **I am an heir, how do I get the refund?**

The heir should complete an Arizona Form 131, Claim for Refund on Behalf of Deceased Taxpayer.

### **Can I do anything to speed up the process?**

Provide prompt responses to all Department requests for information. Be sure to include your full name and social security number on all correspondence you send to the Department.

### **Is the amount of the refund taxable?**

The income tax refund may or may not be subject to tax on either the federal or state returns. The tax portion of the refund is subject to tax if you itemized your deductions and deducted state income taxes paid. The tax portion of the refund would not be subject to tax if you used the standard deduction and did not itemize your deductions. The interest portion of the refund is subject to tax on both the federal and state returns. The Internal Revenue Service publication 525 will provide helpful information or contact your tax practitioner for assistance.

### **What about tax years 1991 and later?**

Beginning in 1991, Arizona no longer allowed a subtraction for state retirement contributions. So, the State Board of Tax Appeals ruled that for 1991 and later years, federal employees were not discriminated against by the State of Arizona regarding the taxation of their retirement contributions. Because this decision has been appealed by the federal employees, the Department will take action on these years when a final appellate decision is made.

**For Additional Information, call:**

Phoenix (602) 255-3381  
Nationwide, toll-free (800) 352-4090

**For Hearing Impaired - TDD only:**

Phoenix (602) 542-4021  
Other Arizona areas, toll-free (800) 397-0256

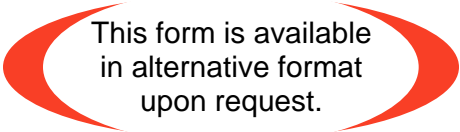
**Or Write to:**

Arizona Department of Revenue  
Taxpayer Information & Assistance  
PO Box 29086  
Phoenix AZ 85038-9086

**For Related Tax Information:**

Recorded Tax Information (602) 542-1991  
Other Arizona areas, toll-free (800) 845-8192  
Forms by Mail (602) 542-4260  
Forms by Fax (602) 542-3756

Internet Address [www.revenue.state.az.us](http://www.revenue.state.az.us)



This form is available  
in alternative format  
upon request.

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